IPTI Xtracts

Property Tax and Assessment News from Around the World

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Contents

What's behind Hong Kong's push for a vacancy tax on empty homes – and will it really work?

What's the plan and why do some pundits find the idea less than exciting?

Package includes unlinking pricing of government-subsidised housing from market rates, vacancy tax on newly built but unsold flats and building affordable housing on five prime sites originally reserved for luxury homes

Hong Kong leader Carrie Lam Cheng Yuet-ngor is set to discuss a plan to introduce the city's first vacancy tax with her top advisers on Thursday.

The aim of the tax is to release more flats and prevent developers from hoarding newly built flats, amid ever-rising prices in the world's least affordable property market. So what is the plan, what does the tax mean for Hong Kong and why do some pundits find it less than exciting?

What's the vacancy tax plan?

Although Lam has been tight-lipped about details, one proposal that has been leaked to the media suggested that all new flats that had been left unsold for more than a year would be subject to the tax, which would be twice a home's rateable value.

The rateable value is the estimated annual rental value of a flat, calculated by government specialists and based on market rates. For example, if a new 500 sq ft flat can be rented out in Wan Chai for HK$40,000 (US$5,130) a month, its rateable value is HK$480,000, so the vacancy tax would be HK$960,000 under the leaked proposal.

But it remains unclear how the government will define completion of a flat. The government requires developers to complete projects – which means to obtain an occupation permit – in a specified period, usually four to six years from when the government grants a developer a lease. Developers can get the permit before completing peripheral works such as indoor shelving, outdoor greening, building footbridges and furnishing open spaces.

Although flat owners can move in with the permit, developers still have to finish all the related works to get a certificate of compliance. There is no deadline for developers to get this certificate.

If the government defines completion by the day of getting the certificate, developers can potentially abuse the system by taking as long as possible to finish projects, leading to de facto hoarding.

Why does the government want this tax?
The first clue about the tax came from Financial Secretary Paul Chan Mo-po a day after he delivered his budget speech in late February. Chan vowed to stop developers from hoarding flats, saying the number of unsold units in completed projects had been on the rise while the government was breaking its back to increase housing supply.
Continuously rising property prices – for 25 straight months by the end of April – have fed into public anger, with some even saying unaffordable housing is behind some young people's wishes for the city to become independent from China. It has been speculated that the government is under pressure to seek quick fixes for the housing issue.

Immediate solutions seem to be few and far between. The government has invited the public to give its opinions on 18 proposals to source more land to plug a projected shortage of 1,200 hectares for housing and economic development in the next three decades. But even the quickest proposals may only yield results in about a decade.
Who might the tax affect and how have they reacted?
Developers, long criticised for hoarding flats, are the target of the tax. Hang Lung Properties, for example, built The Long Beach in Tai Kok Tsui in 2005 but still has not sold all of the flats.
Not surprisingly, many developers are upset about a tax. Stewart Leung Chi-kin, chairman of the Real Estate Developers Association's executive committee, said some of its members had sought legal advice to see if the tax would affect their property rights in any way.
Leung called the government's estimation of 9,000 vacant flats "misleading", saying many were properties for rental only. He also urged the government to define completion as when a flat gets a certificate of compliance, under which there would only be 3,000 vacant flats.
He also wanted homes bigger than 1,000 sq ft – which often fetch world-record prices – to be exempted from the tax, because he said these flats belonged to a different market with much slower sales.
Will the tax work?
So far the plan has received a lukewarm response from tax experts and economists.
Marcellus Wong Yui-keung and Professor Liu Pak-wai, both members of the previous government's Working Group on Long-Term Fiscal Planning, said it could be effective if it was high enough to hurt. They also believed it would not affect Hong Kong's simple tax system or add much to administration costs because it was based on the existing rateable value system. But both believed a more direct method would be to set a sales deadline in the land tender, which developers would have to stick to.
Economist Terence Chong Tai-leung worried that developers might increase flat prices to offset the vacancy tax. He also suggested they could set up non-public companies to buy unsold flats cheaply, so they could continue to hoard units on the second-hand market, which would not be affected by the tax.
Any overseas examples of a vacancy tax?
In Singapore, developers must complete and sell all the flats within five years of being awarded the contract, or face a penalty of at least 10 per cent of the land cost.
Vancouver taxes homes of non-principal residents that are left empty for more than six months a year an amount equivalent to 1 per cent of the properties' assessed taxable value.
In Australia, Victoria state imposes a "vacant residential land tax" on absentee homeowners in Melbourne, which is set at 1 per cent of the value of a house not occupied for six months a year.
Paris has set its vacant home tax at 60 per cent of a flat's fair market rental value.
Many British cities slap an extra 50 per cent on a standard property tax owners already pay if they leave their home empty for at least two years.

'Why care only about property developers and not the public?': Hong Kong's leader justifies vacancy tax plan to boost housing supply

Chief Executive Carrie Lam delivers strongest comments to date on controversial plan to tax those who hoard empty flats, days before expected announcement of levy details

Hong Kong leader Carrie Lam Cheng Yuet-ngor brushed off fears the government will cave in to developers' objections and delay a plan to tax those who hoard empty flats on Tuesday, insisting her priority is to serve the public good.

In a comeback to questions at a press briefing in Beijing, Lam said: "Why do you care so much about how the developers see it?"

"Why do you not care about the views of the general public? As the chief executive, I care about the interests of the public and the people. There are bound to be different views on every government plan."

The chief executive's rhetorical statements are her strongest comments yet on the plan and come before a special meeting with her top advisers on Thursday. Sources said they would discuss details of the tax before making an official announcement.

They added that the Executive Council would also raise the issue of taking back some prime sites earmarked for private flats in the Kai Tak new development area, and use them for public flats instead.

The government hopes the vacancy tax will spur developers to release more flats on the market, boosting supply and cooling prices that have skyrocketed beyond middle-class affordability.

But the city's powerful property developers have declared their opposition to the plan, arguing it is discriminatory and amounts to an intervention in the free market that could end up discouraging and slowing the construction of flats.

They previously warned that they could challenge the policy in court through a judicial review.

Lam, who marks her first year in office on Sunday, has pledged to look at immediate and long-term solutions to ease the city's housing crisis during her term.

Speaking after meeting with vice-premier Han Zheng in the Chinese capital, she emphasised her willingness to tackle issues for the public good, citing the government's proposal to scrap the so-called offsetting mechanism of the Mandatory Provident Fund, the city's pension scheme.

The practice allows employers to dip into workers' pension funds for severance and long-service payments.

"I still hear some strong views from some factions of the business sector," she noted, referring to opposition to doing away with the offsetting practice.

"But for the sake of the best interests of the public, as the chief executive, I will take on the challenges."

Earlier this month, she said a decision on the plan would be announced in June. It was reported the tax would apply only to developers and not affect owners in the secondary property market.

According to the Rating and Valuation Department, about 43,000 flats, or 3.7 per cent of the citywide total, lay vacant in 2017. Among them, 9,370 were unsold and new; of these, 5,000 were completed last year.

The Real Estate Developers Association opposed the tax and said the government figure was misleading. The association, which represents major private developers, claimed that flats were being categorised as completed and ready for occupation when they were waiting for an official certificate of compliance that would come only after all furnishings, fittings and landscaping work had been done.

Stewart Leung Chi-kin, chairman of the association's executive committee, said it never warned about legal challenges to the tax but some developers had let on that they were seeking legal advice on whether their property rights would be affected.

Real estate and construction sector lawmaker Abraham Razack said the tax would only affect as many as 9,000 flats, of which many were rented out by developers, and would not help lower property prices at all even if they were all sold.

"She's complaining about the bread [being too expensive], but the government is the one that's always benefited from [selling] flour," Razack said of Lam, using the sector's favourite analogy of land being flour and resulting developments being bread.

Razack said the government should find more land to build low cost public rental housing for some 280,000 applicants on the waiting list, instead of focusing on vacant flats.

But both men said they would support the plan to build public flats in Kai Tak.

"Personally I think this policy is appropriate," Leung said. "This is for the public interest."

Hong Kong housing

Copying Singapore's approach to flat sales could drive down cost of land and stop Hong Kong developers hoarding flats, say former government advisers

Pair suggest alternative to vacancy tax could be more effective in solving city's housing crisis

Hong Kong should follow Singapore's lead and give developers a deadline for selling flats when granting them the land, two former government advisers have urged.

The suggestion came as the administration moved closer to introducing a vacancy tax on new builds in an effort to release an estimated 9,000 vacant homes held by developers, increasing supply on the world's least affordable property market.

Marcellus Wong Yui-keung, and Professor Liu Pak-wai, both members of the previous government's Working Group on Long-Term Fiscal Planning, said while a vacancy tax may deter developers from withholding supply to wait for a better time to sell, a more direct way of preventing hoarding would be to set a deadline for sales.

Liu, of Chinese University's institute of global economics and finance, said the government could put this deadline in the conditions of selling residential lots, or changing land use to residential, which developers bidding for, or seeking to redevelop specific sites, must fulfil if their bids are successful.

In Singapore developers must complete and sell all the flats within five years of being awarded the contract, or face a penalty of at least 10 per cent of the land cost.

"This is a very direct way to stop hoarding," Liu said. "Developers will also become more conservative in their offers when bidding for sites, which will help bring down land prices.

"It will affect the government's revenues from selling land, but the government has already been sitting on so much land income it does not know how to use it."

In the 2017-18 financial year, the government made HK$612 billion (US$78 billion) in revenue, of which 27 per cent was from land sales. All the land sale revenues will go to the capital works reserve fund, which is used only for infrastructure works.

Liu said it would also help stabilise property prices, because it would put pressure on developers to sell as soon as possible.

"Singapore has already been doing this. Why can't we?" he said.

Wong, who is also chairman of the Taxation Institute of Hong Kong's advisory board, said introducing a deadline for selling would be simpler than introducing a new levy.

However, Roger Nissim, a former senior official in the Lands Department, said a deadline to sell could be "a bit harsh" if the market goes downward, because it meant developers would be forced to sell at a loss, rather than waiting for a better time.

He said at best the government should only require developers to sell half of the completed flats within a specified period to give them flexibility should market conditions change.

"We have very short memories when it comes to the market dropping by over 50 per cent in the period of 1998 to 2003, which could possibly happen again," Nissim said.

In response to the suggestion, a Development Bureau spokeswoman simply cited Chief Executive Carrie Lam Cheng Yuet-ngor as saying the government would elaborate on matters related to vacancy tax this month.

It is widely expected that the vacancy tax could be charged as an addition to the existing rates system. Rates are charged at a percentage, 5 per cent this year, of a property's estimated annual rental value.

Wong said this method was more practical, and required less administration work, because it would be based on the existing mechanism, but it would still mean more work than introducing a deadline.

He said the government would need to increase the rates by several times for the tax to be effective.

Economist Terence Chong Tai-leung worried that developers might increase flat prices to offset the vacancy tax.

As of the end of April, Hong Kong's private property prices had continued to rise for 25 months. The city has been continuously ranked as the world's most expensive property market.

One of the world's hottest property markets is readying a contentious change

The Hong Kong government is expected to announce a tax on vacant apartments to increase supply in the world's least affordable housing market.

Developers oppose the move, saying officials need to increase land supply for housing.

Analysts see political motivations ahead of Chief Executive Carrie Lam's first anniversary in power.

Such a tax is seen as a way to increase supply by nudging developers to unload stock rather than wait for prices to go higher. It would, the thinking goes, help address a social divide of property haves and have nots.

Hong Kong wouldn't be the first to implement such a scheme - it would follow cities such as Singapore and Vancouver - but experts expressed doubt about whether such a levy by itself is enough to do the trick in Hong Kong.
Instead, they said, the government measure would be just as much about politics as property.

"I see this policy as a demonstration that the government is doing something to remedy the situation (but) without much real impact," Mathew Wong, a politics professor at the University of Hong Kong, told CNBC.

Wong said that slipping popularity ratings for top local official Chief Executive Carrie Lam, who marks one year in office on July 1, could be a factor in the announcement expected by the end of June.

Her support rating as tracked in University of Hong Kong polling stood at 54.3 earlier this month, down from 63.6 shortly after taking office.

Developers feel scapegoated and oppose the move, describing themselves as "puzzled" over the government's thinking.
"Such a tax cannot dampen the price escalation that is the combined result of a persistent shortage of land supply and an abundant liquidity in an ultra-low interest rate environment," the Real Estate Developers Association of Hong Kong said in a statement.

Packed onto small, hilly islands and a mountainous peninsula bordering southern China's Guangdong province, many of Hong Kong's approximately 7.4 million people are increasingly fed up with the world's least affordable housing market.
Higher interest rates could have an impact
A public opinion survey released in May by local non-profit think tank Our Hong Kong Foundation showed 77.7 percent of respondents were dissatisfied with crowded conditions.

Denis Ma, head of research in Hong Kong for real estate and investment management company JLL, said frustration is acute among the younger generation.

With apartments of 200 square feet going for the equivalent of $3 million, they "feel they can't get on the housing ladder," Ma said.

Hong Kong has in the past increased land supply through reclamation and opening up farm land. The government acknowledges more is needed. A land task force has even floated closing a golf course to build as many as 13,200 new apartments.

One reason analysts doubt a vacancy tax would have a major impact in Hong Kong is that there were only about 9,000 new-but-vacant apartments as of the end of 2017. The figure could go substantially higher if apartments coming onto the market in the next two to three years are counted.

Analysts said the impact could be larger over the longer term if the levy is high and if it is also applied to vacant used apartments, of which there are an estimated 30,000.

Still, a potentially bigger long-term factor for the property market is rising interest rates.

“It should slow the market down,” said Ma, though he cautioned that could take at least two years to be felt.

Hong Kong has close monetary policy ties to the United States because the local Hong Kong dollar is linked to the U.S. dollar. The U.S. Federal Reserve’s current trajectory of monetary tightening should, therefore, be reflected in Hong Kong's economy.

Against that background, what form a vacancy tax will take remains a big question and any proposal needs approval by the local legislature.

Ultimately, the influence of developers looms large.

“I don’t think the government is willing to risk upsetting them,” said Wong.

Hong Kong to announce results of study on vacancy tax to cool property market, finance chief Paul Chan says

Measure will target developers who hoard empty flats even as government seeks to increase housing supply as economic uncertainties loom

The Hong Kong government is about to complete a study on imposing a vacancy tax on developers who hoard empty flats, Financial Secretary Paul Chan Mo-po said during a legislative meeting on Monday.

It is not clear when officials will reveal the research results.

“Hong Kong’s housing prices have largely exceeded affordability levels,” Chan said when questioned by a legislator on when the government would unveil such tax schemes. “We have been studying measures such as a vacancy tax on developers and will announce the results soon.”

The tax would apply only to developers and not affect owners in the secondary property market, the finance chief added.

About 9,000 flats were left vacant from December last year to March, “a significant figure” compared with the government’s goal of adding 18,000 flats to the housing supply per year, Chan said, citing numbers from the Transport and Housing Bureau.

Hong Kong’s home purchase affordability index – which measures household income relative to one’s mortgage payments – rose to 71 per cent in the first quarter of this year. That was much higher than the 20-year average of 44 per cent and the worst since the city’s housing bubble of 1997.

Chan also warned homebuyers of risks in Hong Kong's surging property market, as the city's mortgage rates are set to rise under its currency peg with the US.

"The Federal Reserve will increase interest rates three to four times this year, which will weigh down on the economy and home prices in Hong Kong," he said, referring to the US central bank.

Lawmakers suggested other measures to cool the property market.

Starry Lee Wai-king, the legislator representing Kowloon West, called on the government to impose restrictions on the sale of flats, including measures aimed at both residents and foreigners. She said Hong Kong should follow mainland China's lead in implementing such restrictions.

Chan declined to comment on whether the government would impose restrictions.

The finance chief also discussed how the city would navigate possible fallout amid trade tensions between the US and China. The two countries are Hong Kong's biggest markets for re-exports. The total value of the city's re-exports last year was HK$3,832.4 billion (US$488.4 billion).

"There are a lot of uncertainties related to US-China trade relations which can affect Hong Kong's economy, even though only 1.3 per cent of the city's trade value would be affected by the list of 1,300 items that Trump has proposed imposing an additional 25 per cent tariff on," Chan said.

In addition, local officials were planning to add 96,000 flats to the market in the next three to four years, government economist Andrew Au Sik-hung said.

Hong Kong home prices have surged for 24 consecutive months, the longest stretch for a property bull market in the past 25 years, making the city the world's priciest urban centre to live and work in.

In April, about 300 flats were left vacant in a completed new residential development in Ho Man Tin, accounting for 20 per cent of the overall units in the project constructed by Kerry Properties in 2017.